

GAO

Report to the Chairman, Subcommittee on  
Federal Services, Post Office, and Civil  
Service, Committee on Governmental  
Affairs, U.S. Senate

September 1987

# ARMS EXPORTS

## Licensing Reviews for Exporting Military Items Can Be Improved



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National Security and  
International Affairs Division

B-228821

September 9, 1987

The Honorable David H. Pryor  
Chairman, Subcommittee on Federal  
Services, Post Office, and Civil Service  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

On March 23, 1987 you requested that we review arms export licensing by the Department of State's Office of Munitions Control (OMC). Specifically, you asked us to examine OMC's licensing activities and procedures, including timeliness and exporter compliance with certain administrative and reporting requirements. You also asked us to identify actions OMC is taking to cope with its increased work load. Because the documentation associated with licensing reviews was not readily available, we did not examine whether licenses were improperly granted. We also did not examine whether munitions were improperly exported.

The United States transfers military items and services overseas in two major ways: (1) U.S. government sales and grants under the Foreign Military Sales Program and the Military Assistance Program, respectively, and (2) commercial arms sales by individuals and business entities. For the latter category of sales, the exporter must have a U.S. government export license approved by OMC. OMC issues export licenses for items which are inherently military in nature, ranging from spare parts to major weapon systems such as fighter aircraft.<sup>1</sup> The Department of Defense (DOD) assists OMC by performing technical reviews of many license applications and providing advice on national security considerations. During our review of OMC, we touched on DOD activities but did not evaluate DOD's performance or effectiveness.

In fiscal year 1986, OMC reported issuing licenses authorizing commercial exports valued at \$14.9 billion (compared to \$8.0 billion in U.S. government foreign military sales and grant assistance). Actual exports made under these licenses, which remain valid for 2 years, are considerably less than authorized. For example, in fiscal year 1984, OMC authorized \$12.7 billion in exports; according to OMC records, \$3.8 billion was actually exported.

<sup>1</sup>The Department of Commerce, on the other hand, licenses "dual-use" items, which have both military and civilian commercial applications.

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During fiscal year 1986, OMC approved about 90 percent of the license applications it acted on. Based on a sample of those applications, over 80 percent were acted on in less than a month. However, we also found that

- Export license application data and information were not routinely checked for accuracy or veracity. OMC rarely requested U.S. embassies' assistance in verifying the bona fides of the purchaser or other foreign parties to the sale. OMC also was not using readily available information about exporters and others involved in commercial sales transactions that would help identify applications potentially needing closer scrutiny. For example, OMC did not use U.S. Customs or Department of Commerce listings of individuals and companies previously convicted of violating export laws or denied export privileges.
- OMC's facilities and automated capabilities are insufficient for storing and quickly retrieving historical data which would be useful in license application reviews, such as detailed data on prior export licenses that are cited by applicants as precedents. Many of the application files we looked for had been sent to storage or the documentation attached was incomplete. The review process has remained largely manual rather than automated. OMC's computer system is basically an automated filing system of limited capacity and has little additional capability.
- OMC's systems and procedures are not adequate to ensure compliance with some administrative and reporting requirements. For example, over 40 percent of the export license applications in our sample that should have had statements concerning political contributions or agents' fees, did not. Additionally, export licenses are supposed to be returned to OMC after their use or when they expire. OMC does not know whether it has the licenses or not. Based on a judgmental sample, two-thirds of the licenses that should have been returned could not be found.

OMC officials stated that an increased work load and static resources have restricted their application review efforts, including their ability to ensure compliance with all administrative requirements. OMC's volume of munitions cases (license applications and other requested approvals) has increased from about 26,000 in 1977 to over 49,000 in 1986 and is expected to exceed 52,000 in fiscal year 1987. Over the same period, OMC's staff has remained at around 30 persons with 10 staff members authorized to approve licenses. OMC has prepared a plan to increase staffing levels and improve its automated systems, but important features of the plan are likely to be curtailed due to budget limitations.

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To help ensure that technical, national security, and foreign policy concerns are considered, OMC sends license applications which require additional scrutiny to other federal agencies, principally DOD. DOD's Defense Technology Security Administration, the entity that coordinates and formulates DOD's reviews, is developing an automated system designed to help identify licenses needing closer review. The system is also supposed to screen license applications against a series of data bases, including intelligence data, that should help identify those applications involving applicants and other parties with a history of wrongdoing, which may need closer scrutiny. Such a system should help OMC licensing officers decide which applications should be referred to DOD, and DOD officials have indicated a willingness to share the system with OMC.

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## Conclusions and Recommendations

We recognize that budget limitations have imposed constraints on OMC. As its work load has increased, OMC appears to have placed greater emphasis on timeliness and less on detailed review of license applications. The near doubling of license applications in the last decade, combined with little growth in OMC resources, has meant that OMC has less time to review individual applications and ensure exporters' compliance with administrative and reporting requirements.

Even within tight constraints, OMC can improve its licensing operations. In order to focus its available resources, OMC could make better use of available information from other federal agencies to identify license applications needing closer scrutiny. Also, U.S. embassies could be tasked more frequently to provide checks on application information. These steps should not require any appreciable increase in resources, yet would provide greater assurance that license application data is accurate and the proposed sale is legitimate.

In the long term, much of OMC's license application review process can be automated. Detailed information on prior export licenses should be readily available to the licensing officers during their reviews. This information should include the types and amounts of munitions involved, the various parties to the transaction, and whether administrative requirements have been met, such as whether required reports were filed or an expired license has been returned. Information identifying exporters and others who have previously violated export laws and regulations, are currently under investigation, or barred from making exports should also be included.

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Accordingly, we are recommending that the Secretary of State require OMC to

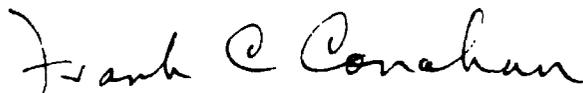
- use readily available information on parties involved in arms exports to help identify export license applications requiring closer scrutiny,
- develop procedures and criteria for requesting that U.S. embassies help verify license application information, and
- ensure exporter compliance with administrative and reporting requirements.

To minimize the effect of the above actions on OMC's timeliness, we are also recommending that OMC assess its long-term automation needs with a view towards automating much of the export license review process. In this connection, OMC should examine the feasibility of adapting for its use the automated review system being developed by DOD.

Appendix I contains detailed information on our findings and recommendations and a discussion of our objectives, scope, and methodology. We discussed this report with cognizant agency officials and have included their comments where appropriate. As requested, we did not obtain written comments.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies of the report to other interested congressional committees; the Secretaries of State, Defense, Commerce, and Treasury; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,



Frank C. Conahan  
Assistant Comptroller General



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# The Office of Munitions Control Can Strengthen Its License Review Process

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The Arms Export Control Act (AECA), 22 U.S.C. 2778, 2794 (1982), provides legislative authority for regulating the commercial export of defense articles and services and related technical data. The defense articles and services subject to export control and the requirements which must be met in order to export those items are set forth in the International Traffic in Arms Regulations (ITAR), 22 C.F.R., parts 121-130. Executive Order 11958, dated January 18, 1977, assigned responsibility for controlling the commercial export of military items to the Secretary of State. Within the Department of State, that function is assigned to the Office of Munitions Control (OMC), which is part of State's Bureau of Politico-Military Affairs.

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## OMC's Organization and Responsibilities

To carry out its responsibilities, OMC has a staff of about 30. OMC is headed by a career service director, a deputy director, and two special assistants. It is organized into two operating divisions—the Licensing Division and the Processing Control Division. At the time of our review, the Licensing Division was staffed by a chief, a deputy chief, five licensing officers, and support staff. The managers and licensing officers are responsible for reviewing the applications to determine if all legal, policy, and procedural requirements are met and deciding whether to grant the license. In addition to the Licensing Division staff, OMC's director, deputy director, and one of the special assistants often perform license review functions, including granting approvals.

The remainder of OMC's personnel are in its Processing Control Division, which provides the administrative, record keeping, filing, data entry, and processing functions in support of the Licensing Division. The division chief and two paralegal analysts perform what OMC refers to as compliance work. OMC officials describe their compliance activities as primarily supporting the U.S. Customs Service and the Department of Justice in their efforts to ensure that munitions exports are properly licensed and that violations are investigated and prosecuted. For the most part, this support involves searching OMC's files for records relevant to investigations and occasionally providing expert testimony in court.

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## The License Process

The ITAR stipulates that with certain exceptions any person, firm, or other organization (including foreign governments) that "engages in the United States in the business of either manufacturing or exporting defense articles or furnishing defense services is required to register

with the Office of Munitions Control." In practical terms, OMC's registration list includes manufacturers and freight forwarders as well as foreign governments that, once registered, may apply for export licenses. A registrant provides OMC with information concerning the organization, including its principal officers and foreign subsidiaries, the nature of its business, and commodities in which it deals. A registrant may register for up to 5 years. OMC's registration list has increased nearly 40 percent in recent years from about 2,500 active registrants in 1984 to over 3,500 in 1987.

Once registered, an exporter may apply to OMC for an export license. When OMC receives a license application the application is recorded and assigned to one of OMC's five licensing officers. These officers are usually responsible for one or more categories of the Munitions Control List. The licensing officer examines each license application to determine if applicable legal, policy, security, regulatory, and procedural requirements have been satisfied. OMC's licensing officers have been provided with a number of regulatory, policy, and administrative guidelines to assist them in performing their licensing duties. In general, they examine licenses to see whether the application involves items not licensed before or not previously licensed to a particular country or region, whether it is politically sensitive, or whether it involves sensitive technology.

Since licensing officers are not policy or technical experts, they may also refer applications to other federal agencies, such as the Department of Defense (DOD), the Arms Control and Disarmament Agency, the National Aeronautics and Space Administration, or other bureaus within the Department of State, for technical or policy reviews before making a licensing decision. For example, an application to export a weapon system might be referred to DOD, while the export of small arms where human rights conditions are of concern might be referred to State's regional bureaus and its Bureau of Human Rights and Humanitarian Affairs.

After any referrals are completed, the licensing officers will approve, deny, or return the license without action. The latter is usually for administrative deficiencies, such as incomplete information, or obvious denials, such as where exporting the particular item to the destination country is prohibited by law.

An approved license is generally valid for 2 years up to the limits on quantity and value specified on the license. The exporter presents the

license to the U.S. Customs Service District Director for the port of export. Customs holds the license until the export is completed and has the responsibility to record exports as they leave the United States and send OMC the documentation of the quantity and value of the actual shipments. When the license expires or the approved export is completed, Customs is supposed to return the license to OMC. These returned licenses allow OMC to compare actual exports to the quantities authorized. As discussed in a later section, OMC data shows that actual exports are significantly less than authorized licensed quantities.

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## Kinds of Licenses

OMC reviews several categories of export license applications and other requests not specifically identified as licenses. These include applications or requests to

- permanently export defense articles and services and related technical data;
- temporarily export defense items, such as taking a weapon system to an overseas trade show and planning to return it to the United States;
- temporarily import defense items, such as returning an item for repairs in the United States and planning to reexport it;
- enter into agreements to authorize or license the manufacture of defense articles abroad (can include the export of technical data or defense articles);
- perform defense services or disclose technical data abroad; and
- retransfer defense articles previously approved for export.

OMC also provides opinions concerning the need for OMC licensing and advisory opinions on the likelihood of OMC approving a particular export. Table I.1 indicates OMC's work load during fiscal years 1983 through 1986. OMC officials estimate that the fiscal year 1987 work load will exceed 52,000 cases.

**Appendix I  
The Office of Munitions Control Can  
Strengthen Its License Review Process**

**Table I.1: Cases Received by OMC**

Case type	Fiscal year			
	1983	1984	1985	1986
Permanent exports	30,947	35,043	33,315	35,743
Temporary imports	3,631	4,339	4,857	5,885
Temporary exports	3,088	4,144	3,841	4,419
Classified transactions	668	811	589	606
Agreements	880	956	1,157	1,391
Other <sup>a</sup>	1,358	1,148	1,089	1,121
<b>Total<sup>b</sup></b>	<b>40,572</b>	<b>46,441</b>	<b>44,848</b>	<b>49,165</b>

Source: OMC.

<sup>a</sup>Primarily advisory opinions and requests for determination of whether OMC licenses were needed.

<sup>b</sup>These totals represent cases recorded as received at OMC. OMC officials told us that some cases are returned to applicants without being recorded because of obvious deficiencies, such as not being complete. OMC estimates the number of such cases at a few hundred per year. OMC does not maintain records on these cases.

**Types of Items Being Licensed**

To gain an understanding of the nature of the license applications OMC receives, we randomly sampled OMC permanent export licenses (which are over 70 percent of OMC's license reviews) for the fourth quarter of fiscal year 1986. OMC reviews export license applications for a great variety of munitions items—from a single handgun to a fighter aircraft—and technical data packages. Based on our sample, export license applications are usually for hardware items (86 percent) and involve parts and components rather than major weapon systems. Technical data packages accounted for about 12 percent in our sample; the remaining 2 percent were a mixture of hardware and technical data. Nearly 80 percent of our sample applications with commodity values reported (some did not have a value reported) were valued at \$100,000 or less with more than half valued at less than \$10,000.

**Most License Applications Are Acted on in 30 Days**

According to OMC, it acted on over 49,000 applications in fiscal year 1986. Of these, OMC approved 43,987 (90 percent), denied 850 (2 percent), and returned 4,181 without action (8 percent). Our sample showed similar results. Typically license applications were denied because of concerns over the sensitivity of the technology and/or the destination country.

OMC officials told us that licensing officers can make decisions on most license applications quickly based on similar applications previously approved (precedents) and the licensing officer's familiarity with the

parties and commodities involved. A recent OMC planning document stated that "[about] 80 percent of license applications can be acted on without review by other offices; most export authorizations are approved or denied by OMC within hours of receipt and returned to applicants within 2 weeks." We found that OMC processed (from receipt to final action) over three-fourths of the license applications it received in less than a month. Our random sample of 1,333 fiscal year 1986 applications showed that about 54 percent of the export license applications and other requests for OMC reviews were processed within 7 days,<sup>1</sup> about 71 percent within 14 days, and more than 80 percent in 30 days. Less than 1 percent of the cases required more than 100 days.

As might be expected, the license applications that took the longest to review had been referred to other offices within the State Department or to other agencies for their recommendations on whether the license should be approved. License applications referred to other agencies receive additional scrutiny from foreign policy and/or national security standpoints, including technical perspectives.

The export license applications most likely to be sent out for recommendations involved either manufacturing licenses and technical assistance agreements, technical data, or selected hardware items involving sensitive technology. Factors affecting decisions to request recommendations included the lack of relevant precedents; questions about the proposed use, the contractors or intermediaries involved, or the destination country; or the licensing officer's lack of familiarity with the export item. New licensing officers are more likely to refer license applications than experienced ones. OMC officials stressed that the ultimate decision over what cases are reviewed outside OMC rests with its licensing officers.

In our sample of fourth quarter fiscal year 1986 applications, 22 percent were sent to other agencies, most often to DOD and the services. Table I.2 contrasts the processing time for the fourth quarter applications in our sample sent for recommendations as opposed to those that were not.

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<sup>1</sup>All the time frame calculations in our sample are in calendar days

Table I.2: Case Processing Time

Completion time (calendar days)	Percent		Total cases <sup>c</sup>
	Cases sent out <sup>a</sup>	Cases not sent out <sup>b</sup>	
0-1	3	23	19
2-7	6	57	46
8-21	17	14	15
22-30	14	1	4
31-45	17	1	4
46-60	14	2	4
61-100	25	1	6
101+	6	2	2

<sup>a</sup>Percentages are based on the fourth quarter sample cases referred to others for comment. Percentages do not add to 100 due to rounding.

<sup>b</sup>Percentages are based on the fourth quarter sample cases that were not sent for recommendations.

<sup>c</sup>Percentages are for our sample of fourth quarter permanent export license applications.

### OMC's Productivity Plan Focuses on Timeliness

OMC's productivity plan for fiscal years 1987 to 1990—prepared in conjunction with State's participation in the Office of Management and Budget (OMB) management improvement initiatives—emphasizes the "important relationship between growing workload, static resources, and declining timeliness." OMC's plan calls for 15 additional full-time staff, temporary assignment of 2 military officers to OMC to help identify applications needing technical review, and improvements in the computer systems to speed up information retrieval. Most computer equipment (but not software) called for in the plan has been acquired, although three staff positions that were to be added in fiscal year 1988 were deleted from the State Department's request during OMB's review. The Executive Director of State's Bureau of Politico-Military Affairs told us that assignment of the military personnel was also unlikely.

As illustrated above, cases referred for recommendation take longer to be acted on; this is an area OMC cannot totally control because it has to rely on other agencies to react. However, several industry representatives and DOD officials said that a number of license applications should not have been referred to DOD because the items involved had been previously approved for export or involved old technology.

DOD's Defense Technology Security Administration (DTSA)—which formulates DOD's position on munitions exports—is working on an export application screening system which could be useful to OMC in identifying

cases needing DOD's technical review. The system is also designed to screen application information against a series of reference data bases, including intelligence data pertaining to applicants and other parties to the license. The objective of the automated system is to (1) reduce the amount of routine work performed by DTSA staff, (2) reduce case processing time, and (3) improve the quality of case analysis by making pertinent data more accessible. DTSA officials indicated a willingness to share this system.

## Little Screening of Registrants and License Applications

OMC reviews registration forms only to be sure that all appropriate blocks were filled in. It does not verify the accuracy of information provided by registrants or use the information in licensing reviews other than to ensure that an applicant is registered.

Also, OMC was not systematically checking parties to license applications (i.e., applicants, freight forwarders, and consignees) against lists of questionable exporters, exporters convicted of past export violations, or those denied export privileges by the Department of Commerce. We found that OMC approved 325 export licenses valued at about \$15 million during fiscal year 1986 for a company denied export privileges by the Department of Commerce during the period. The company was denied export privileges for violation of the Export Administration Act.

Other agencies involved in munitions exports maintain information on export violators that could be used to identify license applications needing closer scrutiny in the review process. For example, Customs, which has primary munitions enforcement responsibility, keeps a listing of exporters convicted of violating export laws and regulations. The Chief of Customs' Strategic Investigations Division told us that this information could help OMC screen its registration list. However, he said that OMC had never asked Customs to screen the list, and his office had not done so because of its own resource limitations.

Officials in DOD and Customs consider the use of such information to be an important tool for license application reviews. A DOD official told us that hundreds of individuals and firms should be considered questionable. The munitions export license applications they submit should be carefully reviewed to help insure the transaction is legitimate and conforms with U.S. arms export policies.

Similarly, the Department of Commerce also maintains information indicating concerns from various sources regarding thousands of individuals

and firms for which it has some enforcement concern. In a 1987 study, a Commerce Department official found that Commerce had negative information on approximately 26 percent of a random sample of OMC registrations. This official also found negative information on 27 percent of foreign consignees in a random sample of OMC licenses. The study did not categorize the negative information by degree of seriousness, such as separating known export violators from the subjects of less serious concerns. Thus, while this study was not sufficient to show that OMC should not have approved licenses, it points out that screening applicants and other parties to license applications can help identify those applications potentially needing closer scrutiny.

OMC officials said that they were aware of less than 30 questionable firms or individuals. They have not formally developed lists of questionable firms and individuals out of concern that such lists would be subject to public disclosure under the Freedom of Information Act<sup>2</sup> or disclosure to affected individuals under the Privacy Act.<sup>3</sup> In the past, Commerce's General Counsel has ruled that such information is exempt from disclosure. As noted by Commerce, both acts cited by OMC provide that information may be exempted from disclosure for classification and law enforcement reasons.

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### Few Checks to Confirm End Use

One way to verify application information is to ask the U.S. embassy in the destination country to check on the foreign parties to the application and try to determine whether the transaction appears legitimate. Of the approximately 49,000 license applications OMC received in fiscal year 1986, OMC officials estimated that they requested around 50 confirmation or end-use checks of application data by U.S. embassy staffs at the export destination point. OMC does not keep centralized files on those checks, and no checks were indicated in license files for the cases we sampled. Both the chief and deputy chief of OMC's Licensing Division

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<sup>2</sup>The Freedom of Information Act provides agencies with several exemptions for withholding information from public disclosure. These include exemptions for classified information and for information the disclosure of which could reasonably be expected to interfere with enforcement proceedings (5 U.S.C. A. 552(b)(1) and (7), 1987).

<sup>3</sup>Under the Privacy Act, 5 U.S.C. 552a, an individual may have access to records and information pertaining to him in an agency's system of records, which is maintained by personal name or other individual identifier (e.g., Social Security Number), 5 U.S.C. 552a(d). Classified information may be exempt from disclosure (5 U.S.C. 552a(k)(1)). Investigatory material compiled for law enforcement purposes may also be exempted from such disclosures, except when it results in the denial of any benefit, privilege, or right to which an individual is entitled under federal law (5 U.S.C. 552a(k)(2)). No court cases have been reported which define whether an export license is a benefit, privilege, or right under this section.

expressed concern during our review about the limited number of end-use checks being made, yet we found no written guidance which licensing officers would use to determine if an end-use check was warranted. According to OMC officials, resource limitations and the inability to identify questionable licenses quickly limit the number of end-use checks that are being requested of the embassies.

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### OMC Authority to Impose Penalties

The State Department has authority to revoke licensing privileges, deny license requests based on prior export violations, and impose civil penalties. It has used this authority four times since 1976, the last time in November 1983. Of the four instances, one resulted in a debarment (60 days); the other three resulted in fines of \$7,000, \$10,000, and \$120,000. Two of the exporters were penalized because items exported were diverted to a proscribed country. Information on the other two exporters was not readily available.

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### Insufficient Facilities and Capabilities to Store and Retrieve Data

OMC's capabilities for retrieving historical data that could be used in licensing reviews are limited. According to OMC and other State Department officials, OMC's facilities for data storage and its automated data processing capabilities are both insufficient to meet its needs.

Due in part to limited filing space and personnel resources, OMC's hard copy files contain little of the supporting data that is submitted with license applications. OMC sends case files to storage after a couple of years to accommodate newer files. In 1986, OMC obtained microfilm equipment to record and store data, but OMC had not started using it by the time we completed our fieldwork. OMC's automated data processing system contains only limited information, which is insufficient to be useful in analyzing precedents or to do other analyses of applications. Although the system contains case tracking information going back 6 to 7 years, it does not contain detailed information such as commodity descriptions, foreign users or consignees, comments from other agencies, or provisos from earlier similar cases that could facilitate subsequent licensing decisions. Thus, licensing officers have to rely on hard copy files, which may not be readily available after a few years, and on their individual experience and knowledge.

OMC officials told us that OMC's limited automated data retrieval capabilities also result in OMC staff conducting time-consuming manual searches of its records to support Customs' enforcement activities. For example, OMC staff manually searched OMC files back to 1981 to identify 300 cases

relevant to one investigation. Further, the system does not contain specific item descriptions, foreign parties to the license application, and other details that could be used to identify possible criminal actions.

In our sample of the fourth quarter fiscal year 1986 applications, we identified precedents referenced on license applications and determined their availability within OMC. About half our sample cases cited one or more prior licenses as precedents. However, about 40 percent of them were no longer retained in OMC's active files. Additionally, the precedent cases we found were not completely documented.

OMC has attempted to compensate for not having complete precedent data by asking applicants for it. In a newsletter dated September 1986, OMC alerted applicants that it would continue to retire records to make room for current cases and requested that they attach copies of precedent licenses and supporting documentation to new applications.

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## **Long-Term Assessment Is Needed**

The equipment improvements cited in OMC's productivity plan included upgrading OMC's computer system at a cost of \$56,000, enhancing software design at a cost of \$20,000, acquiring a microfilming system at a cost of \$23,000, acquiring 14 new computer terminals at a cost of \$93,000, and acquiring 5 printers at an unspecified cost. The computer and microfilming systems were purchased with fiscal year 1986 funds as were 5 of the 14 terminals. Funding for the software improvements is included in the fiscal year 1988 budget, but an OMC official said that he is hopeful they will be able to obtain funds from State Department's fiscal year 1987 supplemental appropriations. As of late August, this had not happened.

OMC's productivity plan provides an approach to meeting some immediate operational needs but is not based on a long-term needs assessment. In a memorandum dated August 14, 1985, State's Systems Design and Programming Division emphasized the need for long-range automated data processing planning by OMC. The memorandum recommended that OMC not purchase a new computer until a thorough examination of its long-term requirements had been incorporated into an action plan—including budget scheduling and project phasing. The recommended plan would also include a requirements study and a feasibility and hardware analysis to form the basis for satisfying OMC's long-term needs.

OMC has not undertaken the recommended study nor has it enhanced its computer capabilities to address needs identified in the memorandum.

OMC officials and licensing officers cited ways that increased automation could support both licensing and compliance activities. However, due to funding limitations, OMC does not plan to acquire additional software to broaden the system's functional capabilities until 1988. Even with the planned software improvements, the system will remain an automated filing system and has little capability for automating the license review process.

## Compliance With Administrative Requirements

OMC does not have adequate systems and procedures to ensure compliance with some regulatory requirements, including application documentation, reporting requirements, and return of licenses. OMC officials told us that they do not have sufficient resources to ensure that the requirements are met or to review required documentation and reports even when they are received. For example:

- Most export license applications valued at or over \$250,000 are supposed to have a letter identifying whether political contributions and agents' fees were paid in connection with the sale. Our sample cases showed that for approved licenses for which such reports were required, 43 percent did not contain the required statement, nor were the license approvals conditioned on its receipt, which would have indicated an attempt to obtain information not submitted with the application.
- OMC requires that licenses be returned after their use or on expiration. However, OMC does not know whether or not they have been returned. According to the Chief of OMC's Records and Reports Branch, many licenses are not returned to OMC in a timely manner—some are returned years after they should have been. He estimated that a quarter (tens of thousands annually) are not returned. We randomly selected 51 temporary export licenses for detailed examination and found that of those which were both approved and expired after 2 years, 67 percent were not in OMC's files indicating either they had not been returned or, if returned, were not properly filed. Either way, these expired licenses were not accounted for.

In addition, for manufacturing license agreement approvals, OMC requires annual reports of sales, including values and to whom sales were made. OMC's Deputy Director told us that they do not have sufficient staff to identify cases for which reports are required or to review the reports they receive.

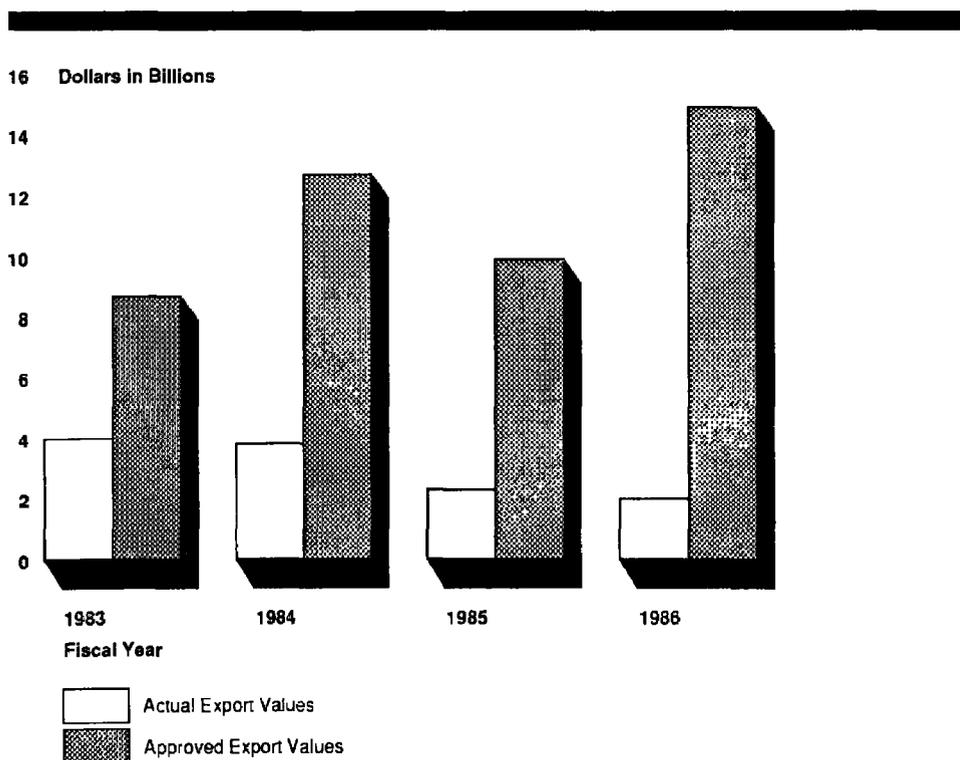
## OMC Reports Understate the Values Authorized and Actual Exports

OMC reports on the value of exports authorized and actual exports differ markedly. Figure I.1 shows the difference between export data provided by OMC for fiscal years 1983-86. We found that while numerous factors affect the accuracy of the figures, both are understated.

## The Value of Approved Export Licenses Is Understated

Section 36(a) of the AECA requires quarterly reports to Congress on the value of OMC licenses authorizing commercial exports of defense articles and services. For fiscal year 1986, the reported value of such articles and services totaled \$14.9 billion, which represents permanent exports of defense articles and related technology.

Figure I.1: Values for Approved Licenses and Actual Exports Reported by OMC



Not included in the reports are values associated with OMC cases for approval of various technical assistance agreements, which often provide for export of defense services, and manufacturing licenses authorizing foreign production. These cases may or may not cite specific dollar values, but these amounts are not recorded in OMC's data base or reported to the Congress. Values cited for some agreement cases we examined ranged from minimal or none up to several millions of dollars. According to OMC officials, manufacturing licenses and technical assistance agreements can cover a period of several years and can be subject to uncertain future production levels and sales affecting royalties and other payments. Thus the value of such cases is not fully known at the time OMC approvals are granted.

OMC reports on authorized exports also do not include such values as those associated with repair services or replacement items that may be authorized for export under authority of temporary import licenses which may have been used to return items to the United States for repair.

## The Value of Actual Exports Is Understated

OMC provides data on actual export values to Defense Security Assistance Agency (DSAA), which includes the information in its annual reports on foreign military sales. A DSAA official has expressed concern that OMC's data is not verified, current, or compatible with other data in the report. Based on our assessment of the data, we agree.

Actual exports can lag behind approvals by as much as 2 years, since licenses are valid for that period of time, but other factors serve to make the actual export data incomplete. They center around Customs' processing of munitions export licenses and related documents, including Shipper's Export Declarations (SEDS). Customs sends OMC data on actual exports through SEDS indicating individual shipments against licenses and ultimately sends OMC expired licenses. Problems identified by OMC and Customs officials included the following:

- Exports were sometimes made without exporters first presenting SEDS for validation and debiting against the export license. Customs officials acknowledged that they do not always catch these. This can occur particularly when the SED does not indicate that the item being shipped is subject to munitions licensing and is improperly marked to indicate authority to ship under less restrictive Commerce Department export authority.

- The process of checking SEDS against export licenses at individual Customs locations and recording exports on the individual licenses was being done manually, and often under time pressures, at the locations we visited. Customs officials acknowledge that their process is subject to errors, but time and resource constraints often do not permit quality control checks.
- OMC officials indicated that expired licenses and SEDS were not received from Customs in a timely manner or at all. An OMC official estimates that tens of thousands of SEDS are never received by OMC and reported receiving licenses 4 to 5 years after they had expired. OMC did not have an ongoing system for tracking licenses to ensure that they were returned and could not provide us with the number of expired but unreturned licenses. In addition, a headquarters Customs official said that OMC has not notified them about any problem concerning the return of SEDS and licenses and that OMC has not specified a time frame for their return.

Shipment values for a given year are subject to change as OMC updates its records with SEDS or returned licenses. However, OMC does not usually update prior years' values in its end-of-year reports on exports it provides to DSAA. OMC updated prior years' export values only at the end of fiscal year 1985 when it updated export values for fiscal years 1983 and 1984. In doing so, the value of exports for fiscal year 1984 increased from \$1.6 billion to \$3.8 billion, and the value of exports for fiscal year 1983 increased from \$2.4 billion to \$4.0 billion. OMC cited limited computer resources as a reason for not updating prior years' export values when it provided export data for fiscal year 1986.

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## Objectives, Scope, and Methodology

We examined the Department of State's munitions export licensing system, focusing on OMC, the group delegated responsibility for licensing munitions exports. Our objective was to determine how well OMC carries out its responsibility to review registrant and export license applications to ensure munitions exports are made in accordance with U.S. foreign policy and national security interests.

Specifically, we examined OMC's licensing activities and procedures, including timeliness and exporter compliance with certain administrative and reporting requirements. Because the documentation associated with licensing reviews was not readily available, we did not examine whether licenses were improperly granted. We also did not examine whether munitions were improperly exported.

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**Appendix I**  
**The Office of Munitions Control Can**  
**Strengthen Its License Review Process**

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We interviewed OMC management officials as well as licensing and compliance staff. We also contacted officials in other State Department offices and other agencies, including the Departments of Commerce and Defense and the U.S. Customs Service, that deal with munitions and other exports. We obtained the views of Customs headquarters staff and field staffs in New York and Los Angeles concerning enforcement and compliance issues related to OMC's overall regulatory role. Additionally, we contacted a limited number of industry representatives for their perceptions of the munitions export licensing process. We also obtained and reviewed pertinent reports, studies, and other documentation available from the various organizations contacted.

In conducting our review, we examined two samples of license applications and other reviews for export approval processed by OMC. These are detailed below.

- We randomly sampled 162 permanent export license applications for more detailed examination. We drew the sample from applications received during the fourth quarter of fiscal year 1986 to help ensure recency of the data while using cases likely to have been completed, i.e., approved or denied.
- We also randomly selected a sample of 1,333 cases out of approximately 49,000 fiscal year 1986 cases (license applications and other reviews) and computed processing time.

Our review was conducted from July 1986 to May 1987. Except for the fourth quarter sample data, we were not able to verify data in OMC's computerized records to source records because of the lack of documentation, the complexity of the system, and the time necessary to perform such an examination. Except for this limitation, our review was conducted in accordance with generally accepted government auditing standards.

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